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January 16, 2014

The Honorable Ben S. Bernanke
Chairman
Board of Governors of the
Federal Reserve System
Washington, D.C. 20551

The Honorable Thomas J. Curry
Comptroller of the Currency
Administrator of National Banks
Washington, D.C. 20219

The Honorable Martin J. Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Dear Chairman Bernanke, Chairman Gruenberg, and Comptroller Curry:

Last November, we wrote you encouraging you to strengthen your proposal for a supplementary leverage ratio in order to reduce future government support and "too big to fail" policies. At the time, we noted that your proposal needed to be strengthened. Sunday's news that global regulators have watered down their new rules at the behest of intense industry lobbying is further evidence that the United States needs to lead by example rather than follow and adopt its own aggressive Supplementary Leverage Ratio to protect our financial system.

According to a recent Bloomberg News report, the Federal Reserve "has decided to delay imposing limits on leverage at eight of the biggest U.S. financial institutions until a global agreement is completed, according to two people briefed on the discussions." The news report indicates that the Fed officials want to wait for the Basel Committee on Banking Supervision to finish their rule before banking regulators complete their own capital requirements for U.S. banks. The Federal Reserve, it seems, has sided with the American Banker Association, a trade association representing all of the largest banks and some of the nation's community banks, who has argued for delaying the new U.S. bank capital rules.

Last week in the Senate Banking Committee, we heard testimony on this issue from a number of expert witnesses -- all of whom agreed that the U.S. should lead by example and adopt a strong leverage ratio rather than follow. Former Federal Reserve Bank of Dallas Vice President Harvey Rosenblum testified that, "we are the largest economy and the most important economy in the world with the financial system that the rest of the world depends upon, and we need the healthiest and safest banking and financial system in the world in order to lead the world. And, therefore, I do not think we should wait on the least common denominator coming up with what they think is right. We ought to do what we think is right, and the others I think will have to follow."

Cheerleaders and lobbyists for the megabanks have argued that this will place U.S. banks at a competitive disadvantage with their global competition. Dr. Allan Meltzer testified at the same hearing that he found that argument "hard to accept." If, as Dr. Meltzer pointed out, other countries don't initially follow our lead on a leverage ratio the megabanks in the United States "have subsidiaries overseas, so if the rules in the United States are strict and prevent them from making loans overseas, they can make them from their overseas subsidiaries."

It is a sad fact that "too big to fail" is alive and well. You, as this country's federal banking regulators, have an opportunity to use your authorities to enhance capital and reduce leverage at the largest financial firms. This is the best way to finally end "too big to fail." We urge you to act now to strengthen your proposal and begin implementing it as soon as is practicable.

Sincerely,

David Vitter
United States Senate

Sherrod Brown
United States Senate